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Assessment of Five Competitive Forces of the Electronic Retail Stores in India: Expansion and Growth of Modern Retailing

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Abstract: *This study assesses the five forces affecting the electronic retail stores in India by entry, expansion and growth of modern retailing. Despite the rapidly changing Indian market due to consumer's adoption of new technology and new way of shopping. They give more preference to modern shopping like online shopping. It is create big challenges for retail stores to retain their customers and build new competitive strategies against modern retailing. This research includes competitive forces based on porter's five forces model as a conceptual framework of this study. The study found that new entries in retail business like online retailers including some motivated factors like: free home delivery, attractive web design, increase income of consumers and demand for western brands. However, threat of substitute is significant due to introduce of modern retailing in Indian market and Indian preference for modern shopping rather than traditional shopping. This study fills the gap in the literature by discussing competitive strategies for organized retail stores to maximize growth and minimize the risk of new entries in retail business.*

Keywords: *Porter five entry forces, electronic retail stores, Indian market, modern retailing*

I. Introduction

The environment of Indian market is dynamic due to the recent growth in information technology and frequent use of internet services. Indian top ten electronic retailers are Tata Croma, Reliance digital, Next retail India Ltd., Staples, e-zone by Future group, Viveks Ltd., Lotus, Terminal by Salora retail venture, Vijay sale. Retailing is the symbol of growth for Indian economy and 13% share in GDP. Total retail sector divide into two part organized and unorganized sector. Total 14 million outlets operate in India and only 4% of them being more being larger than 500 sq ft (46 m2) in size (InfoBharti.com). Organized retailing means trading activities operated by licensed retailers and those are registered for sale tax and income tax etc. that include hypermarket and super market retain chain and privately owned big retail business. Unorganized retailing means traditional format of low cost retailing, for example, mom & pop shop, general stores, corner shop, convenience stores and pavement vendors etc. and other format of retailing is online retailing that is big challenge for organized physical stores. Now people give more preference to online shopping rather than physical store shopping because it is more convenient. So, online shopping of electronic products is big risk for high invested organized physical retail stores. According to the time and requirement of customers the structure of retail industries are also changed here, we describe new structure of retail industry.

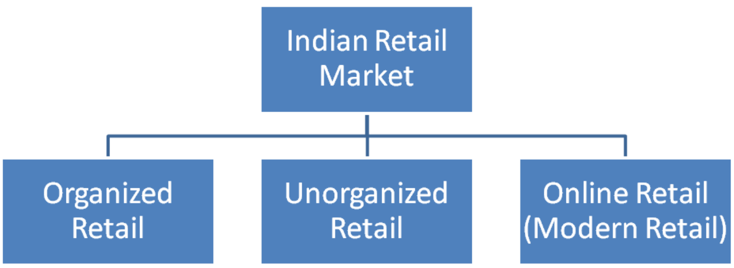

Figure1: Structure of Indian Retail Market

The way of shopping is changed in terms of format and consumer buying behavior. Modern retailing has entered into India in form of online retailing and offer huge variety of products through attractive web design portal and offer high discount product with more convenience and Indian retail sector is next boom industry. India's e-commerce market is small but growing very fast over the next five years. Last year venture capitalists create heavy investment in Indian e-commerce market, new players enter into the market and offer huge opportunity for companies to work with some of logistics and payment challenges in India. E-commerce market growing rapidly and India is world's 11th largest economy for starting of e-business in international market. The e-commerce market growing very fast with 57% share in 2012-2016 (CAGR).

Modern retail in India could be worth US$ 175-200 billion by 2016. Now, online Food retail industry in India growing with online shopping basket. The mobile phone retail industry is already a US$ 16.7 billion business, growing 20% per year (Forrester Research, Inc.)

Fund House	Total Deals	Portfolio
Accel Partners	19	Flipkart, Myntra, Exclusively.in, Babyoye, Freshdesk
Tiger Global	17	MakeMyTrip, Flipkart, Caratlane, Olacabs, JustDial
SAIF Partners	15	MakeMyTrip, JustDial, Firstcry, HomeShop18, iStream
Nexus Venture Partners	14	Snapdeal, Yebhi.com, GENWI, Salorix, Unmetric
Seedfund	14	Redbus, Printo, Fetise, Sportskeeda, Healthizen
Helion Venture Partners	14	MakeMyTrip, Hoopos, Redbus, Yepme, SMS GupShup
IndoUS Venture Partners	13	Snapdeal, Indiaplaza, Zivame, Via, Hushbabies
Sequoia Capital	13	Fashionandyou, Knowlarity, JustDial, Freecharge, Healthkart
SOURCE: VCCEdge		

Objective of study

1. To analyzed the structure of Indian electronic retail industry with the focus on competitive forces.
2. To identified emerging issues and opportunities to help strategic positioning of electronic retailers in India.

II. Conceptual framework

To achieve these objectives, we conducted a comprehensive review of literature by different source of publication like academic journals, books, newspapers, trade and government publication and industry websites. We also used porter's five force model (1980) in our conceptual framework for systematic analysis of retailer's situation. The five force model provides a baseline for evaluating retailer's strength and weakness in terms of competition, consumers, suppliers and substitutes (Porter, 2008).

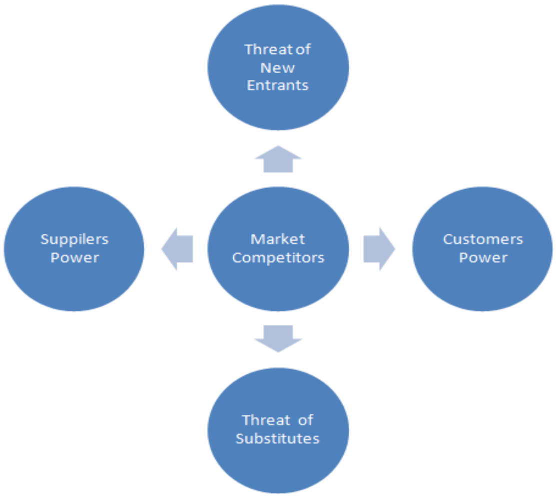

Figure1: Porter's five forces model: conceptual framework of this study

Porter's five forces model show competitive situation of a particular unit by different forces such as 1) Consumers power, 2) Suppliers power, 3) threat of new entrants, 4) threat of substitutes, 5) market competitors (Porter's 1980). These forces determine the profitability and competitive strength of industry. These main factors affecting each force are explained in the context of Indian electronic retailer market.

Threats of New Entrants

New companies enter into retail business with new resources and offer different variety of products on better price and reduce market share of traditional retailers (Porter, 1980). Therefore, existing retailer feel threat from new entrant in the market. Threat form new entrant increase when they are market leaders and offer high discount on sale, switching cost are high, limited access of distribution channel and government policies is favorable to the online retailing. These are the competitive forces to the organized physical retailers to beat the online retailing competition.

Market Leaders

Some online market leading retailing firms are: Flipkart, Snapdeal, Myntra, Jaboug, Homeshop18, Shopclues and ebay, Amazon etc. that create big competition for organized physical store retailers. They affect both side of economies, demand side and supply side. In case of demand side online retailers are attract more consumer by offer high discount on huge variety of products. Supply side retail benefit arise when retailing firm purchase large volume of product direct from manufacturer and resale it through online to the customers so the online retailers sale products at lower price to the consumers. Therefore, do not need to pay VAT, this business model has been repeatedly questioned by offline competitors.

High switching cost

Switching cost means cost to retailers for switching their business from offline to online of selling products and services. High switching cost create problems for organized physical retailers, change may provide customers retention and loyalty towards organized physical stores shopping. However, electronic retailers is labor intensive and do not affords too much investment in online retailing.

Channel of distribution

Organized physical stores retailers are sale their product by set channel such as physical electronic store and digital store. Online sale of electronic gadget increase at holiday time like good Friday and great offer on Saturday but in-store sale goes on holiday and sale declined by 4.7-10% according to current data (PWC, 2015). People give more preference to e-shopping in their living room shopping rather than physical store shopping. Physical store are far from dead, but online sale contributes bigger part of total sale (Euromoniter, 2015).

Government policy

The Government also supports to online retailing and give permission for 100% (FDI) in online retail of goods and services by the automatic routes. Indian e-commerce companies such as Flipkart and Snapdeal have been following the marketplace model—which was not defined—and attracting large foreign investments. Marketplaces essentially act as a platform connecting sellers and buyers. Physical stores also lie allegation on e-commerce company for gaining unfair advantages by offer high discount rate on goods and services by avoiding existing Government rule.

Top online leading retailers in India

Sr.No.	Retailers	Country	Net worth (2015)
1.	Amazon.in	USA	US$ 3,24,25,00,000.
2.	Alibaba.com	China	US$ 2,89,75,00,000.
3.	Junglee.com	USA	US$ 1,49,50,00,000.
4.	Flipkart.com	Singapore	US$ 74,96,58,861
5.	Snapdeal.com	India	US$ 43,41,65,075.
6.	Ebay.in	USA	US$ 35,80,00,000
7.	Jabong.com	India	US$ 24,58,23,695
8.	Sulekha.com	India	US$ 9,42,50,000.
9.	Shopclues.com	USA	US$ 9,09,68,286
10.	Myntra.com	India	US$ 6,06,44,504

Sources: PWC Research (2016)

Major physical stores retailers of electronic products

Sr.No.	Physical Store Retailers	Turnover (2015)
1.	Pantaloon Retail	12500 crores.
2.	K Raheja Group	1570 crores.
3.	Tata group	197.13 crore
4.	RPG group	158.24 crore
5.	Landmark group	3.8 billion
6.	Bharti-Walmart	---------
7.	Reliance	4500 crores
8.	AV Birla Group's	1700 crores
9.	Metro	--------------
10	Viveks Ltd	400 crores

Sources: technopak report (2016)

Customer's power

Customer's power of buying has rapidly changed due to use of new technology and internet in their routine life. They prefer to buy online shopping for gaining high discount on products and services (Sinha & Gokhale, 2012). Organized physical retailers have lost their many smart buyers who prefer online shopping where price are low and quick home delivery services online offer by online retailers. Today customers are more aware and wiser and to researched all the option of shopping before taking actual purchasing decision. So organized physical stores are facing online price competition and supporting government policy also give protection to online retailers. Online retailers have not to pay any overhead cost so they can sale their products below the retail price (Motwani, 2014).

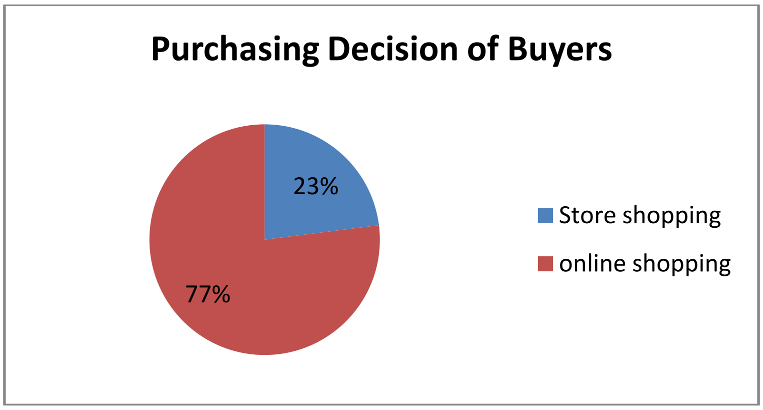

Figure 1 source: Total Retail 2015: Retailers and the age of disruption

Supplier's power

Supplier's power depends on the concentration of suppliers towards volume of sale and threat of sale. Suppliers are powerful when they find out the need of consumer and avoid the possibilities of threats (Maan & Byun, 2011). Online retailers make some preplan programs to sale their product like holiday sales, announced sale on non-traditional days, weekend sales, end season sales, the republic day sales, festival sales etc. Some time consumers are do not want to purchase any product but when they see all these offers they are ready for creating some unusual spending during off season (PWC, 2015). Online shopping growth is measure to increase 350% during festival season and footfalls in organized physical stores (ASSOCHAM, 2014).

Threat of substitutes

There is high threat of substitutes in the Indian electronic organized physical stores due to increase the role of online shopping of electronic products. Indian e-commerce industry has expanded with market size of Rs. 76700 crore and creating high competition for organized retailers with using innovative marketing strategies (CAGR). Organized retailers have reduces the threat for substitutes picking up online model of retailing but rural retailers are unable to adopt online model due to high cost. Recent trends are that buying behavior of Indian consumers are changed now they shift towards online shopping because it is more convenient and advanced platform. A pen drive to a car, a knife to a full furnished house, from nail paint to all chemical products all thing are purchase by online shopping.

III. Conclusion and implication

The overall assessment of five competitive forces indicates that electronic retail stores are facing high level of threat with the entry of online retailing and changing consumer behavior towards shopping pattern. So there are many challenges face by the electronic retail stores. First, online retailing covers all urban consumers with its growing income, convenience of purchasing and high demand for foreign goods. Second, online retailers offer high discounted products with many back guarantees and leading online retailers give some special service like; Amazon offer on the time delivery, flipkart offer assured in delivery of products etc. so, porter model (2008) indicate that high growth rate not lead the profitability if substitutes are attractive to customers. Our assessment indicated that forces of substitutes, new entrants and buyer's power due to convenience shopping, international brand, high discount rate etc., create problems for organized physical stores retailers. In the long time period of market, only big retailers can survive if they improve productivity and efficient distribution chain, some time Government also support small retailers to provide some appropriate incentives.

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